

# **Kazakstan Community Loan Fund**

## **[Annual Report for the Period October 1998 through September 1999]**

Prepared for USAID/G/EG/MD by ACDI/VOCA under contract PCE 0406-A-00-6028-00

# **KAZAKSTAN COMMUNITY LOAN FUND**

## **SEMI-ANNUAL REPORT:**

**October 1998 – March 1999**

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## SUMMARY

The Kazakhstan Community Loan Fund (KCLF) has made significant progress over the past six months. During the reporting period KCLF voted on a Board of Directors, hired three new staff persons, completed an international standard audit, hosted an USAID evaluation, developed an internal control plan, and held its first client-level training activity. Along with its institutional growth, KCLF has also expanded its scale of outreach and had 1,815 active clients as of the beginning of April 1999.

In January, KCLF signed a grant-partnership agreement with Mercy Corps International to receive funding through the USDA food monetization program. This money is to be used exclusively for lending capital. As of March 1999, \$75,000 had been received out of a total of \$250,000. A grant application was also made to the Eurasia Foundation in October 1997 which is due to be signed in April 1999 for an additional \$150,000 in lending capital.

During the last quarter, KCLF hosted representatives from the following organizations:

- British Know How Fund
- Triodos Bank
- Open Society Institute
- Mercy Corps International
- Eurasia Foundation
- USAID's Micro-Enterprise Office.

KCLF is becoming recognized in Taldykorgan as a community leader. In December, KCLF was approached by the Taldykorgan government to take place in several citywide events promoting local handicrafts. As a result of its participation, KCLF's Program Director currently sits on a Board to plan an up-coming crafts promotion week. KCLF also works with the Women's Support Center in Taldykorgan to conduct joint seminars and share information about their respective programs.

## PROGRAM ACCOMPLISHMENTS

### *Key Program Indicators*

As shown in Table 1, KCLF is outperforming its key program indicators projected for the end of year three (September 1999). This is mainly a result of the large number of active clients KCLF has reached through its successful lending methodology. As of the beginning of April 1999, KCLF supports more than four times the number of businesses originally projected in the USAID Cooperative Agreement. The small difference in outstanding portfolio reflects the smaller than projected average loan size and is in keeping with KCLF's mandate to reach poor entrepreneurs.

**Table 1**

### Key Program Indicators

	YEAR 3 (Projected)	AS OF APRIL 1999
Number of Loans Outstanding	446	1,815
Outstanding Loan Portfolio	\$457,632	\$311,000
Delinquency	6%	<1%
Loan Loss Rate/Arrears	3%	0
Return on Operations*	102%	128%

\* Not including the cost of funds.

#### *Portfolio Outreach*

As indicated in Table 2, KCLF has maintained a very sound financial base of operations. KCLF has disbursed almost one million dollars through over 4,000 loans. At the same time, KCLF has maintained a very low delinquency rate of less than 1%.

KCLF continues to serve a client base of mostly female entrepreneurs with the majority of new and repeat loans being disbursed to women business owners. KCLF also supports business start-ups through its lending and technical assistance and has helped almost 200 new businesses begin in Taldykorgan. KCLF's loans have supported the creation and retention of nearly 1,000 small and micro businesses.

**Table 2**  
**Summary Portfolio Outreach**  
**October 1997 – March 1999**

PORTFOLIO/OUTREACH	AMOUNT/NUMBER
Number of active loans (as of Oct. 1997)	0
Number of active loans (as of March 1999)	1,815
Number of loans disbursed (cumulative)	4,290
Amount Disbursed (cumulative)	\$877,747
Arrears (unpaid balance on loans with payments more than 30 days overdue)	0
Percentage Female Clients	84%
Number of Staff	23
Effective Annual Interest Rate	50.4%
Local, Annual Bank Lending Rate	19%
Local Inflation Rate (Source: NBK)	2%

### PROGRAM ACTIVITIES

### *Board of Directors*

In October 1998, KCLF held its first General Assembly meeting of its active clients. This meeting was held to introduce the process of electing a Board of Directors. The KCLF staff reviewed its achievements with clients and used the time to garner suggestions and ideas from borrowers. The meeting was concluded with the election of three clients to a BOD Nominating Committee.

In November and December the BOD Nominating Committee met weekly to develop criteria and conduct interviews with potential BOD representatives. Criteria included having completed 3 loan cycles, to have no delinquency, to be of good character, and to have the time and commitment to serve on the Board. It was also decided that 2 staff representatives would serve on a Board of 9 people.

In January, another General Assembly was held to elect five of the ten nominees for a seat on the Board. After the votes were tallied, four nominees had clear majority votes but there was a tie for the fifth. A run-off vote was immediately held – electing the only male client to the Board.

At the end of January, the first BOD meeting was held with five client representatives (four women and one man), two staff representatives (an Enterprise Agent and the Chief Accountant), and KCLF's two donor organizations. ACDI/VOCA maintains a non-voting seat until September 1999.

The BOD continues to meet bi-monthly to establish its By-Laws and elect its Officers. The emphasis of the first several months has been to introduce the Board to every aspect of KCLF's operations and help them take ownership of the oversight process. To date Board meetings have covered the following topics:

- KCLF's vision
- History and registration process
- The role of the Founders and donors
- What is group lending? Micro credit's role in development
- Best practices in group lending
- The development of By-Laws
- The election of Board Officers

### *Funding*

In January, KCLF signed a grant-partnership agreement with Mercy Corps International to receive funding through the USDA food monetization program. This money is to be used exclusively for lending capital. As of March 1999, \$75,000 had been received out of a total of \$250,000. A grant application was also made to the Eurasia Foundation in October 1997 which is due to be signed in April 1999 for an additional \$150,000 in lending capital.

### *External Audit*

In January, KCLF hired Ernst & Young to conduct an international standard audit of its lending activities. In early February, two auditors came to Taldykorgan for one week to review its internal records and assess its lending portfolio. The first draft of the auditor's findings has been released to KCLF and discussed with management. As of the writing of this report no major auditing findings were made and the official management letter from Ernst & Young will stipulate that KCLF has met Kazak and international standards of cash management and accounting and that no major changes are necessary to its internal financial systems.

### *Training*

In 1998, KCLF established a Business Development Services Unit as part of its operations. This Unit runs all external and internal training, conducts research, publishes the KCLF newsletter, and markets the credit and training program. This Unit was established to address client information and training needs while covering its own operating expenses from revenue generation. To this end, the Unit has launched two broad-based revenue generation strategies. The first is to provide best practice training to local NGOs and secondly, to offer technical training courses to clients.

In March, KCLF trained four staff members of a new micro lending program in Almaty (called Baspana) that provides shelter loans. Trainees included two loan officers, the manager of the credit department, and head of public relations. The four Baspana employees traveled to Taldykorgan for one week to receive hands-on practical training from the KCLF staff. A cost recovery fee of \$500 was charged for this service.

In February and March, KCLF offered its first technical training course to clients on marketing. Almost twenty clients participated in this training to learn about assessing their market environment and adapting to new market opportunities. A cost recover fee of 450 tenge was charged to participants. The next series of training courses will be held in April on bookkeeping.

### *Internal Control Assignment*

In early January, the Sharon Brown a Farmer to Farmer Agricultural Finance volunteer provided her technical expertise to the KCLF. The Farmer to Farmer Agricultural Finance project is based out of the main ACDI/VOCA office in Almaty, Kazakhstan. The focus of the volunteer assignment was to assist the staff in the development of an internal control system. The assignment was designed to help KCLF:

- Develop an asset management system that would protect the value of its cash and maintain asset value in an inflationary environment.

- Lower accounting and bookkeeping risk that may arise due to erroneous record keeping, inadequate provisioning for bad debts, and incorrect treatment of default.
- Lower the risk of computerization stemming from incorrect use of software, bad database management, and weak security.
- Streamline its existing cash accounting system.

The volunteer visited KCLF for two weeks to conduct the assignment, spending most of her time with KCLF's Finance and MIS Departments. Ms. Brown recommended that the group loan payment reports be generated from the current MIS data and downloading into excel. She assisted in streamlining the data-entry process by recommending that the KCLF discontinue the practice of entering the same data into an excel spreadsheet that was not being utilized to produce the reports. As a result of the assignment, KCLF was able to develop an internal control system that ensures greater transparency in its existing financial and information systems.

KCLF was extremely pleased with Ms. Brown's recommendations and as a result of this assignment, KCLF has:

- Improved its system of checks and balances for its accounting and bookkeeping systems.
- Developed a more efficient system for monitoring repayments and disbursements.
- Streamlined its financial and MIS reporting to identify potential financial, accounting, or erroneous record keeping.

#### *Impact and Other Reporting Activities*

Over time KCLF had developed a series of different reports on delinquency, client growth, portfolio growth, among others. In January, a new reporting format was created that summarizes data in English and Russian on impact and portfolio growth. The following trends are summarized on the portfolio:

- Active Clients
- Active Portfolio
- Total, cumulative disbursed
- Total, cumulative number of loans disbursed
- Number of loans disbursed (current month)
- Value of loans disbursed (current month)
- Average loan size
- Number of clients per EA
- Client dropout ratio
- Portfolio at risk



Regarding impact reporting, the Peace Corps Volunteer impact tracking system has been integrated with the KCLF MIS to generate a monthly report that summarizes:

- Total jobs created/retained
- Total number of start-ups supported
- Percentage female entrepreneurs
- Percentage of loans used for working capital/fixed assets
- Percentage of loans used for trade/service/manufacturing
- Changes to client businesses
- Use of client profits

### *Sub-Sector Activity*

In September, KCLF's Peace Corps Volunteer began research on various sub-sectors in Taldykorgan as a means to identify potential new markets for KCLF. During the past six months, five sub-sectors have been identified and researched, including sewing, bakeries, oil processing, hot food services, and office supplies. The goal of this research is to assess the supply and distribution channel for each area as a means to identify constraints to a sub-sector's growth. The final sub-sector will be chosen based on its constraints and the potential for a project intervention to have a leveraged effect upon the entire sub-sector.

A sub-sector will be chosen by the end of April after which a Sub-Sector Workshop will be held to bring together all players in the sector and have open discussions about potential project interventions.

### *Community and International Assistance*

KCLF has become well-known throughout the international donor community as a leader in Kazakhstan's micro credit sector. KCLF's management receives at least one request a month from donor organizations and local NGOs to visit Taldykorgan and see the program. During the last quarter, KCLF hosted representatives from the following organizations:

- British Know How Fund
- Triodos Bank
- Open Society Institute
- Mercy Corps International
- Eurasia Foundation
- USAID's Micro-Enterprise Office.

KCLF is becoming more recognized in Taldykorgan as a community leader. In December, KCLF was approached by the Taldykorgan government to take place in several city-wide events promoting local handicrafts. As a result of its participation, KCLF's Program Director currently sits on a Board to plan an up-coming crafts promotion week. KCLF also works with the Women's Support Center in Taldykorgan to conduct joint seminars and share information about their respective programs.

### *Personnel*

Over the past six months, KCLF has added three new administrative staff persons. The first new positions were in the Finance and Administrative Department – adding a Senior Accountant and an Accountant. The third position was a Marketing and Research Coordinator in the Business Development Services Unit. As of April 1999, KCLF has 23 staff people 11 of who are productively working with clients and 12 administrative staff.

### **FINANCIAL MANAGEMENT**

One of the most important activities undertaken in the New Year was a re-evaluation of KCLF's interest rate structure. There were serious rumors of a devaluation and ensuing inflation in January and KCLF needed to assess its potential risk in a more difficult economic environment. As such, KCLF undertook a staff-wide brainstorming session to discuss possible economic changes in 1999 and how they might impact its program. As a result of this and other analyses, KCLF took the decision to raise its annual, nominal interest rate from 45%. KCLF's new nominal interest rate structure is:

- 50% for 2-3 month loans
- 60% for 4-5 month loans
- 65% for 6-9 month loans
- 70% for 10+ month loans

At the same time, KCLF is very conscious that interest rates must not be raised at the sake of an overstaffed or inefficient institution. KCLF carefully tracks its administrative costs and has streamlined a variety of its documentation procedures. As of April 1999, KCLF maintains an operating cost ratio of 10% and each Enterprise Agent actively works with at least 150 clients.

**Table 3**  
**Financial Statement**  
**MARCH 1999**

ACTIVITIES	AMOUNT
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Outstanding loan amount	\$310,879
Number of loans outstanding	1,815
Average loan size	\$205
Delinquency	<1%
Long run loss rate	0
<b>INTEREST RATES</b>	<b>AMOUNT</b>
Program Interest Rate	50-70%
Inter-Bank Lending Rate	19%
Inflation Rate	2%
<b>CLIENT REVENUES</b>	<b>AMOUNT</b>
Interest Income	\$13,986
Fee Income	\$1,872
Total Client Revenue	\$15,858
<b>NON-FINANCIAL EXPENSES</b>	<b>AMOUNT</b>
Administrative	\$11,513
Depreciation of Fixed Assets	\$255
Loan Loss Provision	\$537
<i>Sub-Total</i>	\$12,305
Cost of Funds	\$4,912
<i>Total Expenses</i>	\$17,217
Return on Operations (including the cost of funds, provisions, and depreciation)	92%
<b>Return on Operations (not including cost of funds)</b>	<b>128%</b>

**Table 4**  
**Income and Expenses**  
**October 1997 - March 1999**

<b>INCOME</b>	<b>AMOUNT</b>
Interest and Fee Income	\$57,591
Other Operating Income	\$0

Total Income	\$57,591
<b>EXPENSES</b>	
Salaries and Benefits	\$36,325
Other Administrative	\$18,764
Loan Loss	402
Bank Fees	\$1,016
Non-Operating Income	0
Non-Operating Expenses	0
Operating Profit/Loss	\$1,084

**Table 5**  
**Balance Sheet**  
**September 1997 – March 1999**

<b>ASSETS</b>	<b>AMOUNT</b>
Cash on Hand and in the Bank	\$27,796
Mandatory Reserves	0
Short-term Investments	0
Loans Outstanding	1,815
Loan Loss Provisions	0
Outstanding Portfolio	\$310,879
Long-term Investments	0
Fixed Assets (after depreciation)	\$22,000
Other Assets	0
Total Assets	\$360,675
<b>LIABILITIES</b>	0
Client Savings	0
Other Deposits	0
Loans from Central Bank	0
Loans from other Banks	0
Other Short-term Liabilities	0
Other Long-term Liabilities	0
<b>EQUITY</b>	
Paid in Equity (shareholders)	0
Donated Equity	\$302,000
Retained Earnings	\$57,591
Other Capital Accounts	0
Profit/Loss	\$1,084
Total Liabilities and Equity	\$360,675

## **FUTURE ACTIVITIES**

One of the most significant challenges for KCLF over the next few months will deal with the devaluation that occurred in April. As of April 1<sup>st</sup> 1999, there has been 32% devaluation, which has effected prices and the availability of dollars. KCLF will constantly assess its financial situation during the coming weeks and will ensure the stability of its portfolio and cash reserves.

In April, KCLF will begin developing a 3-5 year strategic plan for its operations. This planning process will include all KCLF staff, Board members, and selected clients. As an outcome of the planning process KCLF will determine its financial and institutional goals, the resources it will need to meet these goals, and a set of clear activities to implement these efforts.

In May, KCLF will be hosting an ACDI/VOCA volunteer who will work with the BDS Unit to develop a mission statement and long-term cost recovery plan for its operations.

At the end of May, the KCLF Program Director will travel to Russia to attend a MicroFinance Center training on financial management and delinquency strategies. This training will serve as an important complement to the on-going technical assistance KCLF has received from ACDI/VOCA as well as help KCLF establish its own international contacts with other micro lending organizations.

During the last reporting period ACDI/VOCA will continue its efforts to strengthen KCLF's Board of Directors. The Board will become more involved in the financial management and institutional monitoring of KCLF to ensure that it meets its goals. In addition, the Board will take part in a review of KCLF's external audit and will help the management adjust its operations to comply with its findings.

# **KAZAKSTAN COMMUNITY LOAN FUND**

## **SEMI-ANNUAL REPORT:**

**April 1999 - September 1999**

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KCLF Strategic Plan

## SUMMARY

The Kazakhstan Community Loan Fund (KCLF) has made significant progress over the past six months. During this period, it stopped receiving grant subsidy for its operations and began recovering all of its internal costs based on its interest revenue. This has been a significant achievement after only 17 months of lending. KCLF's financial progress has been matched by its continued institutional growth and outreach to poor clients in Taldykorgan. As of September 1999, KCLF had over 2,300 active clients working in the bazaars and small shops throughout the city.

During the reporting period KCLF also hosted an ACIDI/VOCA Volunteer to work with its Business Development Services Unit, held several internal strategic planning workshops, held two skills development workshop for staff, finalized its promotional video, and signed two grant contracts with donor agencies.

## PROGRAM ACCOMPLISHMENTS

### *Key Program Indicators*

As shown in Table 1, KCLF is outperforming its key program indicators projected for the end of year three (September 1999). This is mainly a result of the large number of active clients KCLF has reached through its successful lending methodology and its ability to achieve internal financial efficiencies and begin covering all of its operating costs from interest revenue. The overall size of the active portfolio has remained small in dollar terms partly due to the devaluation from April to September of 60 percent. While this has hurt the portfolio in dollar terms, the portfolio continues to grow in tenge by a monthly average of 8 percent.

**Table 1**  
**Key Program Indicators**

	<b>YEAR 3 (Projected)</b>	<b>AS OF SEPTEMBER 1999</b>
Number of Loans Outstanding	446	2,348
Outstanding Loan Portfolio	\$457,632	\$314,000
Delinquency	6%	3%
Loan Loss Rate/Arrears	3%	1%
Return on Operations*	102%	169%

\* Including provisions and depreciation but not including the cost of funds.

### *Portfolio Outreach*

As indicated in Table 2, KCLF has maintained a very sound financial base of operations. KCLF has disbursed over one million dollars through over 7,000 loans. At the same time, KCLF has maintained a low delinquency rate of less than 5%.

KCLF continues to serve a client base of mostly female entrepreneurs with the majority of new and repeat loans being disbursed to women business owners. KCLF also supports business start-ups through its lending and technical assistance and has helped over 400 new businesses begin in Taldykorgan. KCLF's loans have supported the creation and retention of 2,000 small and micro businesses.



**Table 2**  
**Summary Portfolio Outreach**  
**October 1997 – September 1999**

<b>PORTFOLIO/OUTREACH</b>	<b>AMOUNT/NUMBER</b>
Number of active loans (as of Oct. 1997)	0
Number of active loans (as of September 1999)	2,348
Number of loans disbursed (cumulative)	7,180
Amount Disbursed (cumulative)	\$1.2 million
Arrears (unpaid balance on loans with payments more than 30 days overdue)	\$1,640
Percentage Female Clients	84%
Number of Staff	25
Effective Annual Interest Rate	50.4%
Local, Annual Bank Lending Rate	19%
Local Inflation Rate (Source: NBK)	12%

## **PROGRAM ACTIVITIES**

### *Funding*

At the end of September, ACDI/VOCA signed a two-year grant extension to fund the expansion of KCLF's operations to southern Kazakhstan. This grant will provide for continued expatriate technical assistance, loan capital and operating subsidy during the start-up period. At the end of two years, the branch office in the city of Shimkent will be operationally self-sufficient.

According to the non-banking financial institution law that KCLF operates under, all branch activities will be reported to the Central Bank through the Taldykorgan office. The Taldykorgan office therefore has become KCLF's official Headquarters and will regulate the Shimkent branch and any other future branch activities.

In August, KCLF signed a grant agreement with the Eurasia Foundation that provides lending capital for the Taldykorgan office. This will be an eighteen-month grant for \$150,000 to help KCLF expand its lending base and diversify its portfolio through the new individual lending program.

### *Strategic Planning*

In May a series of internal workshops were held with the KCLF staff to begin the development of a long-term strategy. The first workshop was held for one day with the entire staff to introduce the concept of strategic planning and how KCLF should track its progress by establishing more precise long-term goals and objectives. This workshop generated a draft three-year strategy that included yearly objectives, needed internal and external resources, and specific goals to achieve these objectives.

Senior management held two consecutive workshops to further discuss and fine-tune the long-term strategic plan. The draft plan was slightly revised and presented again to the general staff for approval. After these steps were taken, the strategic plan was presented to the Board of Directors for final approval. The final version is attached to this report.

### *Board of Directors*

The KCLF Board of Directors continues to meet monthly and discuss the on-going issues and future opportunities for the Fund. In the spring, the Board met to discuss and approve KCLF's new strategic plan that includes the opening of a new branch office and diversifying their products in Taldykorgan.

One of the key issues the Board faced over the reporting period was the devaluation of the tenge. As a result of the devaluation, KCLF had an immediate problem with clients regarding repayment and delinquency started to go up. The Board members decided that stricter delinquency measures were needed and changed KCLF's Loan Policy such that a late fee of 1%, of the installment due, is paid for every day of delinquency.

In addition to delinquency, the Board was faced by a request from KCLF staff for an across-the-board raise -- according to the economy-wide inflation associated with the on-going devaluation. A special Board meeting was held to discuss this issue and hear proposals from the staff. The final decision was taken to establish a new inflation policy that would provide KCLF staff with protection from dramatic inflationary increases in the economy.

The Policy states that the KCLF management will review the inflation situation every 6 months to determine if there is a need for salary adjustments. If the need is determined, the Government stipulated inflation rate is taken as an across the board raise for all staff. In July, an across-the-board 6 percent raise was given to the entire staff.

### *Training*

At the end of May, the KCLF Program Director traveled to Russia to attend a Micro Finance Center training on financial management and delinquency strategies. This training served as an important complement to the on-going technical assistance KCLF has received from ACDI/VOCA as well as help KCLF establish its own international contacts with other micro lending organizations.

As a result of the training, the KCLF Program Director has worked with the Regional Director to establish a new set of internal monitoring indicators. A trend analysis matrix has been established to monitor the organization's activities on various levels, including: financial, institutional, and efficiency issues. This tool is used with the Board to help them track KCLF's operations and understand the improvements and developments associated with the various indicators.

In July, KCLF held two internal training programs for staff. The first was a financial training that built on the materials brought from the Micro Finance training in Russia. This training focused on delinquency management issues, financial efficiency indicators, and internal control systems.

The second July training was held for KCLF's Enterprise Agents. This training focused on several areas that had been identified by management as needing improvement, including:

- Clear and concise presentation of KCLF's methodology and lending procedures to *new* clients
- Delinquency management of clients: follow-up and follow through
- Assisting clients with KCLF's cash/flow and balance sheet statements (as part of the loan application process)

Both of these internal trainings were considered successful and have been incorporated into KCLF's permanent series of staff training.

### *Business Development Services*

In June, an ACDI/VOCA volunteer came to Taldykorgan to work with the newly formed Business Development Services (BDS) Unit. This Unit runs all external and internal training, conducts research, publishes the KCLF newsletter, and markets the credit and client training programs.

After operating for 6 months, KCLF felt that this Unit needed to have more focus and a clear strategy of how it would work and operate within the organization's overall mandate. As such, the ACDI/VOCA volunteer Ms. Kelly McGrath was requested to work with the Unit to develop a common understanding among the staff of what the BDS can achieve, how it supports the broader objectives of KCLF, and to develop its own strategic plan and workplan.

Ms. McGrath's visit was extremely productive, holding over 5 workshops with clients, non-clients, staff and the Board of Directors. These workshops were held to gain input and consensus regarding the BDS Unit's work. At the conclusion of this information gathering process, Ms. McGrath and the Unit staff developed an extensive workplan and strategic plan that would guide its operations for the coming year.

As a result of the ACDI/VOCA volunteer's assistance, the BDS Unit has more clearly focused its work in two distinct areas: internal and external activities. Internal activities are those that support KCLF such as trainings, marketing and research. External activities include continued work with various sub-sectors and providing training to NGOs and other micro credit organizations. It was also determined from these exercises that only external activities were cost recoverable (through the generation of fees) while the internal activities would continue to be paid for by KCLF.

### *Peace Corps Volunteer*

In June, the Kazakhstan Peace Corps contacted KCLF regarding their willingness and ability to accept a second volunteer. While the Peace Corps stated that it was unusual to host two volunteers simultaneously, they felt that KCLF's support and working environment for its current volunteer (Anita Wright) has been excellent and that another volunteer might profit from this type of work.

As the majority of Anita Wright's work is currently with the BDS Unit, it was considered appropriate for the new volunteer to take over many of her former responsibilities. In August, a new volunteer began working with KCLF and is taking over the client site visits program. As noted in previous reports, these site visits are conducted randomly as a mechanism to double check on client activities, obtain independent information on the work of EAs and garner suggestions for changes in KCLF policy or future training activities.

### *KCLF Video*

In May, KCLF received the final version of a promotional video that was completed by an ACDI/VOCA volunteer in 1998. This is a 40 minute video that presents Kazakhstan's current socio-economic situation, the plight of women, and how KCLF has attempted to meet these demands through the delivery of training and credit to poor, micro entrepreneurs.

A formal presentation of the video was given to the USAID Mission and was well received. As a follow-up to the video presentation, a debriefing was given to the Mission Director on KCLF's current activities and status.

KCLF has provided all of its current donors with a copy of this video and continues to use it as a marketing tool. Although not translated into Russian, KCLF shows the video at various trainings with simultaneous translation from its staff interpreter.

## FINANCIAL MANAGEMENT

As can be seen in Table 3 below, KCLF has made significant strides in achieving self-sufficiency in the last six months. In the previous reporting period, the monthly return on operations was 92% compared to over 100% for September 1999. As this is the end of the grant subsidy period for the Taldykorgan office, it is with great significance that the program has achieved cost coverage of all expenses – including the cost of funds.

This profitability is also reflected in the income and expenses statement for the entire contract period. As seen in Table 4, KCLF is operating with a clear profit as of the end of September 1999.

**Table 3**  
**Financial Statement**  
**SEPTEMBER 1999**

<b>ACTIVITIES</b>	<b>AMOUNT</b>
Outstanding loan amount	\$313,253
Number of loans outstanding	2,348
Average loan size	\$167
Delinquency	3%
Long run loss rate	1%
<b>INTEREST RATES</b>	<b>AMOUNT</b>
Program Interest Rate	50-70%
Inter-Bank Lending Rate	19%
Inflation Rate	12%
<b>CLIENT REVENUES</b>	<b>AMOUNT</b>
Interest Income	\$13,899
Fee Income	\$1,582
Total Client Revenue	\$15,481
<b>NON-FINANCIAL EXPENSES</b>	<b>AMOUNT</b>
Administrative	\$7,199
Depreciation of Fixed Assets	\$360
Loan Loss Provision	\$1,640
<i>Sub-Total</i>	\$9,199
Cost of Funds	\$4,950
<i>Total Expenses</i>	\$14,149
<b>Return on Operations (September only)</b>	<b>109%</b>

**Table 4**  
**Income and Expenses**  
**October 1997 - September 1999**

<b>INCOME</b>	<b>AMOUNT</b>
Interest and Fee Income	\$131,723
Other Operating Income	\$9,100
Total Income	\$140,823
<b>EXPENSES</b>	
Salaries and Benefits	\$56,000
Other Administrative	\$55,304
Loan Loss	\$2,542
Bank Fees	\$3,500
Non-Operating Income	0
Non-Operating Expenses	0
Operating Profit/Loss	\$23,477

**Table 5**  
**Balance Sheet**  
**September 1997 – September 1999**

<b>ASSETS</b>	<b>AMOUNT</b>
Cash on Hand and in the Bank	\$24,047
Mandatory Reserves	0
Short-term Investments	\$104,000
Loans Outstanding	2,348
Loan Loss Provisions	0
Outstanding Portfolio	\$313,253
Long-term Investments	\$
Fixed Assets (after depreciation)	\$25,000
Other Assets	0
Total Assets	\$466,300
<b>LIABILITIES</b>	0
Client Savings	0
Other Deposits	0
Loans from Central Bank	0
Loans from other Banks	0
Other Short-term Liabilities	0
Other Long-term Liabilities	0
<b>EQUITY</b>	
Paid in Equity (shareholders)	0
Donated Equity	\$302,000
Retained Earnings	\$140,823
Other Capital Accounts	0
Profit/Loss	\$23,477
Total Liabilities and Equity	\$466,300

## **FUTURE ACTIVITIES**

The main activity during the next reporting period will be the start-up activities for KCLF's new Branch office in the city of Shimkent. Shimkent is about 850 kilometers south-west of Almaty with a population of over 400,000. KCLF's current Chief Accountant has been transferred to Shimkent to act as the new Branch Manager there and will oversee all local operations. According to the NBK law governing non-banking financial institutions, the Shimkent Branch will report directly through the headquarters office in Taldykorgan.

In November, two micro finance NGOs from Uzbekistan will be attending KCLF's theoretical and practical training. This is the third time KCLF has offered this training to locally-based NGOs but is the first time a regional organization has been interested in this type of assistance. Both of the groups are paying for the training – which allows KCLF to cover its operating costs and make a small profit.

Over the next period, KCLF will host an ACDI/VOCA volunteer to help with the development of KCLF's first new loan product. KCLF has done its own market research regarding the diversification of its product mix and has identified an interest in larger, individual loan products. As such, an ACDI/VOCA volunteer has been selected to help KCLF establish a strategic and operational plan to launch this new product. KCLF plans to offer its first individual loans by the spring 2000.

## **KCLF STRATEGIC PLAN**